

Application for Change in Accounting Method

► For Paperwork Reduction Act Notice, see instructions on page 4.

Note: If you are applying for a change in accounting period, use Form 1128.

CHECK ONE

- Individual
- Partnership
- Corporation
- Cooperative (Sec. 1381(a))
- Insurance co. (Secs. 801, 821, or 831)
- Other (Specify)

Name of applicant (if joint return is filed, show names of you and your spouse)

Identifying Number (See instructions)

Address (Number and street)

City or town, State, and ZIP code

Section A. Applicable To All Filers

NOTE: Are you making an election under section 458 or 466? Yes No

If "Yes," see Instructions for Section J on page 4. Do not fill in Section A.

1 The following change in accounting method is requested (check and complete appropriate spaces):

- (a) Overall method of accounting: from _____ to _____
- (b) The accounting treatment of (identify item) ► _____
from (present method) ► _____ to (new method) ► _____
- (c) If Partnership, show number of partners ► _____. If Subchapter S corporation, show number of shareholders ► _____
- (d) Number of tax years present method has been used ► _____
- (e) If change is granted, will this method be used for financial reporting purposes? Yes No

If "No," please explain ► _____

2 (a) If a change is requested under 1(b) above, check the present overall method of accounting:

- Accrual Cash Hybrid (if a hybrid method is used, explain treatment of material items in detail)

- (b) If a change to the **Reserve Method** is requested, is it being made under Rev. Proc. 64-51? Yes No
- (c) If a change in depreciation method is requested, is it being made under Rev. Proc. 74-11? Yes No
- (d) Are you a manufacturer to whom Regulation section 1.471-11 applies? Yes No
- (e) If "Yes," block is checked for line 2(d), are the items involved in this request properly inventoriable in accordance with Regulation section 1.471-11? Yes No

If "Yes," report the items and amounts on a separate page.

3 Tax year of change begins (mo., day, year) ► _____ and ends (mo., day, year) ► _____

4 (a) Nature of business and principal source of income ► _____

- (b) Applicant's area code and telephone number ► _____
- (c) District Director's office having jurisdiction ► _____

5 If engaged in a business or profession: (a) Enter your taxable income or (loss)* from operations for tax purposes for the five (5) tax years preceding the year of change:

1st preceding year ended 19	2d preceding year ended 19	3d preceding year ended 19	4th preceding year ended 19	5th preceding year ended 19
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
(b) Enter the amount of net operating loss to be carried over to the year of change, if any				\$ _____
(c) Amount of investment credit carryover to year of change, if any				\$ _____
(d) Other credit carryover, if any. (Identify) ► _____				\$ _____

*Individuals enter net profit or (loss) from business; partnerships enter ordinary income or (loss).

6 In the last 10 years, have you changed, or requested permission to change, your accounting period, your overall method of accounting, or the accounting treatment of any item? Yes No

If "Yes," attach copy of ruling letter(s), if available. If copy of ruling letter(s) is not available, explain and give date permission was granted.

7 Is applicant a member of an affiliated group filing a consolidated return for the tax year of change? Yes No

- (a) If "Yes," state parent corporation's name, identifying number, address, tax year, and Service Center where return is filed ► _____
- (b) If "Yes," provide the information requested in 5(a) above for each member of the affiliated group (attach schedule).
- (c) If "Yes," do all other members of the affiliated group employ the method of accounting for which the change is requested? Yes No. If "No," explain ► _____

8 Is there an issue involving an overall change in accounting method or a change in the treatment of a material item pending before a field office of the IRS or any Federal court? Yes No

If "Yes," explain ► _____

9 Does the adjustment under section 481(a) include a pre-1954 amount? Yes No

Enter section 481(a) adjustments that would have been required if the requested change had been made for each tax year of the 3-year period preceding the year of change (see instructions for Section A on page 4)	1st preceding year ended 19	2d preceding year ended 19	3d preceding year ended 19
\$ _____	\$ _____	\$ _____	\$ _____

Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.

Applicant's name

Signature and title

Date

Signature of individual or firm preparing the application (see General Instructions on page 4)

Date

Section B. Change in Overall Method of Accounting

1 If change is from the cash to the accrual method, check method to be employed for treating bad debts: Specific charge-off Reserve
 If reserve method is to be adopted, complete item 2 under Section D below.

2 The following amounts should be stated as of the end of the tax year **preceding** the year of change. If none, state "None." (Although some of the items listed below may not have been required in the computation of your taxable income due to your present method of accounting, it is necessary that they be entered here for this form to be complete. Show amounts attributable to long-term contracts on page 3, Section F.)

	Amount	Show by (/) how treated on last year's return	
		Included in income or deducted as expense	Excluded from income or not deducted as expense
(a) Income accrued but not received	\$ _____		
(b) Income received before the date on which it was earned. State nature of income. If discount on installment loans, see Section C below _____	_____		
(c) Expenses accrued but not paid	_____		
(d) Other (specify) _____	_____		
(e) Prepaid expense previously deducted	_____		
(f) Supplies on hand previously deducted	_____		
(g) Inventory Enter the amount of ending inventory reported on your return for the tax year preceding the year of change. \$ _____	_____		
(h) Reserve for bad debts	_____		
Net adjustment			\$ _____

3 Nature of inventory ▶ _____ **4** Method used for valuing inventories ▶ _____
5 If the change is from the accrual to the cash method, have any receivables been sold in the past three years? Yes No
 If "Yes," enter the amounts sold for each of the three years on a separate page.
6 Attach copies of **Profit And Loss Statement** (Schedule F (Form 1040) in the case of Farmers) and **Balance Sheet**, if applicable, as of the close of the tax year preceding the year of change. State accounting method used when preparing balance sheet. If books of account are not kept, attach copy of the business schedule provided with your Federal income tax return or return of income for that period. If amounts in 2 above do not agree with those shown on profit and loss statement and balance sheet, explain on separate page.

Section C. Change in Method of Reporting Interest (Discount) on Installment and Other Loans

1 Change with respect to interest on Installment loans, Commercial loans, and Other loans (explain) ▶ _____
2 Amount of earned or realized interest that has not been reported on your return as of the end of the tax year preceding the year of change \$ _____
3 Amount of unearned or unrealized interest that has been reported on your return as of the end of the tax year preceding the year of change \$ _____
4 Method of rebating in event of prepayment of loans ▶ _____

Section D. Change in Method of Reporting Bad Debts

1 If a change to the **Reserve Method** is requested and applicant has installment sales, are such sales reported on the installment method? Yes No
 If "Yes," show whether change relates to: Installment sales, Sales other than installment sales, or Both.

2 If a change to the **Reserve Method** is requested, provide the following information for the five tax years preceding the year of change:

	1st preceding year	2d preceding year	3d preceding year	4th preceding year	5th preceding year
Total sales					
Deductions for specific bad debts charged off ¹					
Recoveries of bad debts deducted in prior years					
Year-end balances:					
Trade accounts receivable					
Trade notes receivable ²					
Installment accounts receivable ³					
Other receivables (explain in detail)					

3 If a change to the method of deducting specific bad debt items is requested, enter the amount in reserve for bad debts at end of the year preceding the year of change \$ _____

¹ If your return was examined, enter amount allowed as a result of the examination.
² If loan company, enter only capital portion.
³ Applicable only to receivables attributable to sales reported on installment method. Enter only the capital portion of these receivables.

Section E. Change in Method of Valuing Inventories. See instruction for Section E on page 4.

- 1 Nature of all inventories ▶
- 2 Method of identifying goods in inventory Specific identification FIFO LIFO.
If "LIFO," attach copy of Form 970 adopting that method and copies of any Forms 970 filed to extend the use of the method.
- 3 Show method and value of all inventories at the end of the tax year preceding the year of change under:
 - (a) Present method ▶ \$
 - (b) New method ▶ \$
 - (c) If pre-1954 adjustment is involved, provide only those amounts that can be substantiated \$

Section F. Change in Method of Reporting Income from Contracts

- 1 Are your contracts long-term contracts as defined in Regulation section 1.451-3? Yes No
- 2 Method used for reporting long-term contracts . Completed Percentage of completion Accrual Other (explain)
- 3 Method used for reporting short-term contracts Accrual Other (explain)
- 4 Adjustment required under section 481(a) \$

Section G. Change in Method of Treating Vacation Pay

- 1 Is the plan(s) fully vested as of the end of the tax year preceding the year of the change? Yes No
- 2 If "Yes," enter the amount of accrued vacation pay as of the end of the tax year preceding the year of change \$
- 3 Number of tax years plan(s) has been vested ▶

Section H. Change in Overall Method of Reporting Income of Farmers to Cash Receipts and Disbursements Method

Note: Also complete Section B.

	1st preceding yr.	2d preceding yr.	3d preceding yr.	4th preceding yr.	5th preceding yr.
1 Total income from all sources					
2 Net farm profit or (loss)					
3 Inventory: Crops, etc.					
Livestock held for sale:					
Purchased					
Raised					
Livestock held for draft, breed- ing, sport, or dairy purposes:					
Purchased					
Raised					
Total inventory					

Method used to value inventory (check appropriate block):
 Cost Cost or market, whichever is lower Farm price Unit livestock price Other (explain on separate page)

Section I. Change in Method of Accounting for Depreciation

Applicants desiring to change their method of accounting for depreciation must complete this section. This information must be supplied for each account for which a change is requested. **Note:** Certain changes in methods of accounting for depreciation may be filed with the Service Center where your return will be filed. See Rev. Proc. 74-11 for the methods covered.

- 1 Date of acquisition ▶
- 2 Are you the original owner or the first user of the property? Yes No
- 3 Is depreciation claimed under Regulation section 1.167(a)-11 (CLADR)? Yes No
If "Yes," the only changes permitted are under Regulation section 1.167(a)-11(c)(1)(iii). Identify these changes on the tax return for the year of change.
- 4 Is the property public utility property? Yes No
- 5 Location of the property (city and State) ▶
- 6 Type or character of the property ▶
- 7 Cost or other basis of the property and adjustments thereto (exclude land) \$
- 8 Depreciation claimed in prior tax years (depreciation reserve) \$
- 9 Estimated salvage value \$
- 10 Estimated remaining useful life of the property ▶
- 11 If the declining balance method is requested, show percentage of straight line rate ▶
- 12 Other information, if any ▶

Section J. Change in Method of Accounting Not Listed Above (See instructions)

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General Instructions

Note: If you are applying for a change in accounting period, use Form 1128.

Paperwork Reduction Act Notice

The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

File this form to request a change in your accounting method, including the accounting treatment of any item.

Generally, applicants must complete Section A. In addition, complete the appropriate section (B through J) for which a change is desired.

You must give all relevant facts, including a detailed description of your present and proposed methods. You must also state the reason(s) you believe approval to make the requested change should be granted. Attach additional pages if more space is needed for explanations. Each page should show your name, address, and identifying number.

State whether you desire a conference in the National Office if the Service proposes to disapprove your application.

Time and Place for Filing

Generally, applicants must file this form with the Commissioner of Internal Revenue, Washington, DC 20224, within the first 180 days of the tax year in which it is desired to make the change.

Note: If this form is being filed in accordance with Rev. Proc. 74-11, see Section I below.

Identifying Number

Individuals.—Individuals should enter their social security number in this block. If the application is made on behalf of a husband and wife who file their income tax return jointly, enter the social security numbers of both. However, if an individual is engaged in a trade or business, enter the employer identification number instead of the social security number.

Other.—Applicants other than an individual should enter their employer identification number in this block.

Signature

Individuals.—An individual desiring the change should sign the application. If the application pertains to a husband and wife, the names of both should appear in the heading and both should sign.

Partnerships.—The form should be signed with the partnership name followed by the signature of one of the partners and the words "Member of Partnership."

Corporations, Cooperatives, and Insurance Companies.—The form should show the name of the corporation, cooperative, or insurance company and the signature of the president, vice president, treasurer, assistant treasurer, or chief accounting officer (such as tax officer) authorized to

sign, and their official title. Receivers, trustees, or assignees must sign any application they are required to file. For a subsidiary corporation filing a consolidated return with its parent, the form should be signed by an officer of the parent corporation.

Fiduciaries.—The form should show the name of the estate or trust and be signed by the fiduciary, executor, executrix, administrator, administratrix, etc. having legal authority to sign, and his or her title.

Preparer other than partner, officer, etc.—The signature of the individual or firm preparing the form should appear in the space provided on page 1. **An application made by an agent on behalf of an applicant must be accompanied by a power of attorney authorizing the agent to sign for the applicant. If the agent is also authorized to represent the applicant before the IRS, receive a copy of the requested ruling, or perform any other act(s), the power of attorney must reflect such authorization(s).**

Specific Instructions

Section A.—(Item 10, page 1)—If providing the requested information causes you financial hardship or other serious inconvenience, you may do the following:

- (1) Enter your best estimate of the percent of the section 481(a) adjustment that belongs to each year; and
- (2) Explain in detail why you cannot provide the requested information.

If we later examine your return for the year of the change or for later years, we have the right to verify your statement at that time.

Section B.—(Item 2(b), page 2)—Include any amounts reported as income in a prior year although the income had not been accrued (earned) or received in the prior year; for example, discount on installment loans reported as income for the year in which the loans were made instead of for the year or years in which the income was received or earned.

Section D.—(Item 2, page 2)—A special procedure is available to change your method of accounting for bad debts from the specific charge-off method to the reserve method. Generally, if you comply with Rev. Proc. 64-51, as modified, you may assume the change has been approved.

Rev. Proc. 64-51, modified by Rev. Proc. 77-39, does not apply to your trade receivables that include items of unrealized income for Federal income tax purposes.

The Bad Debt Reserve must be determined as follows:

- (1) Add together the net losses on bad debts for 5 years preceding the tax year of change.
- (2) Divide this total by the sum of the amounts of outstanding trade receivables at the close of each of the 5 years.
- (3) Multiply the amount of outstanding trade receivables at the close of the tax year of change by the resulting decimal in (2). This amount is the Bad Debt Reserve, the deduction for which is to be prorated over 10 years.

Section E.—Applicants must give complete details about the old method of valuing

inventory and the proposed method. State whether all or part of your inventory is involved in the change.

Inventories of retail merchants.—The retail method of pricing inventories does not contemplate valuation of goods at the retail selling price. The retail selling prices of goods on hand must be reduced to approximate cost or cost or market, whichever is lower, by the adjustments required in Regulation section 1.471-8.

Inventories of manufacturers and processors.—Applicants requesting to change to the full absorption method of inventory costing must attach a schedule showing the treatment, under both their present and proposed methods, of all costs listed in Regulation sections 1.471-11(b)(2), (c)(2)(i) and (c)(2)(ii) for Federal income tax purposes, and all costs listed in or subject to Regulation section 1.471-11(c)(2)(iii) for tax and financial report purposes. If you plan to leave out one or more costs listed in Regulation section 1.471-11(c)(2)(iii) from the computation of the amount of inventoriable costs under the full absorption method, you must also attach the data required by either section 5.02 or 5.03 (whichever is appropriate) of Rev. Proc. 75-40.

LIFO inventory changes.—Attach a schedule with all the required computations when changing the method of figuring LIFO inventories. If you are changing from the LIFO to a non-LIFO method, attach a schedule with the following additional information:

- (1) The specific types and classes of goods in the LIFO inventories involved in the proposed change and the comparative values of such inventories as of the end of the tax year preceding the year of change determined by (a) the LIFO method and (b) the proposed method and basis (such as cost or lower of cost or market).
- (2) State whether the proposed method and basis conforms to the inventory method currently used with respect to non-LIFO inventories, if any, or that such method is otherwise consistent with Regulation section 1.472-6.

Section F.—Regulation section 1.451-3(b)(1) provides that, except as provided in Regulation section 1.451-3(b)(1)(ii), the term "long-term contract" means a building, installation, construction, or manufacturing contract that is not completed within the tax year in which it is entered into.

Section I.—Rev. Proc. 74-11 provides a procedure whereby applicants are considered to have obtained the consent of the Commissioner to change their method of accounting for depreciation. You must file Form 3115 with the Service Center where your return will be filed within the first 180 days of the tax year in which it is desired to make the change. Attach a copy of the form to the income tax return for the tax year of the change.

Section J.—Generally, this section should be used for requesting changes in a method of accounting for which provision has not been made elsewhere on this form.

If you are making an election under Code section 458 or 466, or section 373(c)(2) of the Revenue Act of 1978, show the applicable information required under Regulation section 1.458-10, or Temporary Regulation section 5.466-1 or 5.466-2.